Report of the Housing Strategies' Affordable Housing Task Force

May 31, 2005 -- Final

Despite Houston's reputation as an "affordable" city, large proportions of lower-income Houstonians cannot afford their housing costs or experience other significant housing problems such as crowding or poor quality housing.[1] The problem is particularly acute within neighborhoods undergoing gentrification, where rising land costs are pricing out many neighborhood residents and disrupting established social networks. A related problem is Houston's relatively low homeownership rate, which lags behind that of the rest of the country, and which suggests that many low-income renters in Houston may not have a meaningful choice about whether or not to become a homeowner.

The purpose of this report is to identify ways for Houston to strengthen its affordable housing policies to better meet these challenges. The report provides recommendations to help Houston more efficiently allocate existing housing resources; improve transparency, coordination and accountability; and allocate new resources in a strategic and efficient manner to ensure that Houston is better able to meet its affordable housing objectives. Though there are many areas of interest, the Task Force has elected to focus on a limited number of items that can be enacted within the year. The Task Force will reconvene late this year to consider progress and look at other areas of interest not touched upon in this report.

As an overall philosophy, this task force believes that no single sector can solve all of Houston's affordable housing needs, recognizing that each sector has their own area of expertise. For instance, the profit sector's skill generally lies in working with larger developments serving homebuyers earning over 70% and renters over 60% of the area median income. Community-based nonprofits have expertise in serving lower income working households and in integrating housing development with neighborhood revitalization. The capabilities of transitional housing providers and the housing authority are in assisting the lowest income households. The nonprofit sector is less well developed in Houston than typical nationally, partly for cultural reasons and partly from a misunderstanding of the marketplace's limits. The city needs to assist each of these sectors in effectively serving their principal markets while increasing collaboration between the sectors so that opportunities exist for households along the entire income spectrum.

The recommendations are divided into three sections:

A. *Process Improvements*. This section includes recommendations designed to enhance transparency and accountability in the allocation of city-controlled housing funds; improve coordination among different departments involved with housing matters; streamline the process of making tax-delinquent properties available for affordable housing; and streamline the 70/30 developer reimbursement program for infrastructure improvements. This section also recommends the establishment of a stakeholder's advisory committee to provide input into the city's housing policies and an affordable housing resource center to help developers and nonprofit organizations better understand the resources available for affordable housing.

[1] Appendix A provides a brief analysis of Houston's housing problems.

B. *Policy Changes*. A key focus of this section is on strategies for expanding homeownership opportunities through an improved downpayment assistance program and increased homeownership education and counseling. The section also recommends that the City level the playing field for scattered site development proposals (to facilitate neighborhood revitalization), preserve the availability of affordable housing to low-income families residing in revitalizing neighborhoods undergoing (or expected to undergo) rapid home price appreciation, and re-evaluate city policies that adversely impact housing affordability.

C. *Funding recommendations*. This section describes strategies for expanding the availability of affordable housing through continued and expanded use of TIRZ set-asides, CIP bond elections, and tax abatements, as well as the creation of a housing trust fund.

This report represents one outcome of a process initiated by the Houston Chapter of the American Institute of Architects, in partnership with the Houston City Council, the business community, nonprofit community-based organizations and others, to examine and ultimately strengthen Houston's housing policies. See Appendix B for additional background information on the Affordable Housing Task Force.

Affordable Housing Task Force Recommendations

A. Process Improvements

1. **Enhance Transparency in the Allocation of City-Controlled Housing Funds**. In light of HUD's decision to suspend Houston's HOME funds and recent performance problems with Houston's affordable housing investments, it is essential that the process for allocating city-controlled affordable housing funds (i.e., HOME, CDBG, etc.) be strengthened to increase transparency and accountability and to facilitate effective review by the mayor, city council and the public. Specific proposals to achieve these goals are provided in Appendix C.

2. **Reduce governmental barriers to affordable housing development**. There is an urgent need to implement the recommendations of the permitting task force and other reforms that will streamline the process of obtaining government approval for new residential development in Houston, providing the predictability necessary to encourage developers to build within the City. Increased training of city staff would help improve consistency of implementation of the city's various approval processes, improving the climate for development. \In addition, even as the system is being streamlined, the City should formalize and expand the ombudsmen role that John Walsh has exercised to ensure that any obstacles to development within the City can be addressed in an expedited fashion. Additional staff are likely needed to ensure that Mr. Walsh's office has the capacity to handle the additional work this would bring.

3. **Establish a Stakeholder's Advisory Committee to assist the city in overseeing the RFP process for allocating city-controlled affordable housing funds and to recommend improvements to the RFP process and other city housing policies**. Such a committee was effective in helping to fix problems with the state's process for allocating low-income housing tax credits; establishing a similar committee in Houston would help strengthen Houston's allocation process. Meetings of the committee should be open to the public.

4. **To improve coordination on housing policy, establish a Housing Roundtable of City Departments** and other agencies and groups (e.g., HACH, HHFC, HUD, GHBA, HAA, CDCAGH, LISC, etc.), to be led by a designee of the Mayor. This discussion group would facilitate better communication and provide a forum for developing new ideas on how to work together to promote development and affordable housing.

5. **Streamline the process of making tax-delinquent properties available for affordable housing.** Tax-delinquent properties can be a critical resource for affordable housing, but the current process is too cumbersome and slow. We recommend that the city support state legislation enabling a bypass of the public auction process for non-homestead properties with four years or more of tax delinquency that have been targeted by the city or a community housing development organization for development of affordable housing. In addition to parcels identified by the City, the process should also allow experienced local nonprofits to identify eligible parcels. Specific recommendations are in Appendix D.

6. **Develop policies to guide the expenditure of TIRZ set-aside funds**. At present, there are few rules to ensure that the funds are spent efficiently and in a manner that advances the city's affordable housing priorities. The policies could be developed through the Stakeholder's Advisory Committee described above.

7. **Streamline the 70/30 Developer Reimbursement Program**. This program was created to help increase the city's affordable housing stock available to low- and moderate-income families by reducing the costs to profit and nonprofit developers of providing or improving basic infrastructure. While the basic concept is sound, the process needs to be streamlined and accelerated to become more effective and timely and to increase developer participation. Specifically, we recommend that the city: (i) simplify the rules, manual and flow chart; (ii) streamline and improve consistency in the decision making process (eliminate rules changes, unpredictable timing, etc.); (iii) establish a point person or separate office to handle this program; and (iv) streamline construction awards. The basic principle ought to be that the developer hires the engineer and the city approves the plan. The developer should be allowed to bid, manage the project, and show proof of compliance. Improvements are also needed in the timing of the joint referral process. All in all, the goal should be to reduce the time for completion of the entire process to no more than four to six months. (See also the substantive recommendation below re extending the program to scattered site development.)

8. **Affordable Housing Resource Center**. To ensure that for-profit and nonprofit developers are fully aware of existing affordable housing resources available to help them build affordable housing in the city, create a user-friendly website that describes all available federal, state, and local resources (along with a written pamphlet with similar information), sponsor workshops where developers and CDCs can learn about these resources, and assign staff of the Housing and Community Development department to work collaboratively with developers and CDCs to help them better navigate the process. The center should also provide consumer information accessing local affordable housing opportunities, accessing mortgage and home improvement financing, and understanding predatory lending and consumer rights under fair housing laws. This will help advance the important goal of making this department more oriented around education and customer service.

B. Policy Changes

9. **Strengthen the City's Downpayment Assistance Program**. The current program provides the same fixed downpayment assistance grant ($9,500 for new construction; $5,000 for the purchase of existing homes) to homebuyers over a broad range of incomes (from 0 to 80% of the area median income). As a result, some families receive more subsidy than they need to purchase a modest-priced home, while lower-income families do not receive enough assistance. To use funds more efficiently, we recommend the city change the process to (a) vary the level of assistance based on families' income level, (b) provide the bulk of the assistance in the form of a deferred-payment second mortgage, and (c) index the maximum purchase price under the program. These changes would enable the city to more effectively serve lower-income families and to recycle funds for future use. Appendix E has specific recommendations.

10. **Promote Neighborhood Revitalization through Scattered Site Development.** The 70/30 infrastructure reimbursement program does not work well when applied to the type of small-scale, scattered size development necessary to promote neighborhood revitalization. To promote community revitalization, the reimbursement program for new subdivision infrastructure and drainage costs should be extended to provide up to $6,000 per lot in TIRZ or bond funds for scattered site lot development in low-income census tracts. (See also the procedural recommendation above re streamlining the 70/30 reimbursement program.) In addition, the principal RFP process for allocating city-controlled affordable housing funds should be reviewed and if necessary revised, to ensure that these funds are accessible for scattered site development projects.

11. **Protect Residents from Displacement**. To minimize displacement resulting from community revitalization, enact property-tax relief to protect low-income families in gentrifying neighborhoods from rapidly rising property tax bills. Options are provided in Appendix F.

12. **Increase funding for homeownership education and counseling (including post-purchase counseling) and fund financial education and a predatory lending campaign.** Homeownership education and counseling is one of the most cost-effective ways to expand homeownership among low-income families. It also helps minimize defaults and foreclosures. Financial education helps lower-income families lay the groundwork for future home purchase, and a predatory lending campaign helps reduce the incidence of lower-income families being exploited by unfair lending terms. Details provided in Appendix G.

13. **Preserve and expand the availability of affordable housing to very low-income families residing in revitalizing neighborhoods** undergoing (or expected to undergo) rapid home price appreciation. Three tools are particularly important: Section 8 homeownership can help very low-income residents "buy-in" to the neighborhood and benefit from rising property values; project-basing of Section 8 vouchers in tax credit and other high-quality developments can preserve rental opportunities for extremely low-income residents; and a rehabilitation loan program (see the next bullet). Details in Appendix H.

14. **Target rental housing development assistance** to units that are affordable to households earning less than 30% and 50% of the area median income, with a preference for units that

are located in census tracts with 100% or more of the area median income; are serving the lowest income households, and are providing the longest term of affordability.

15. **Modify the City's Approach to Home Repair and Rehabilitation.**

    a. **Elderly and Disabled Home Repair** - in recent years the primary focus of housing rehabilitation has been through the Emergency Repair Program, an initiative which is currently experiencing compliance problems. Seldom are the repairs which are made under the program due to unforeseen emergencies. Because the program operates as a grant, its existence creates an incentive for seniors and their families to defer regular home maintenance that could often prevent the need for the program's services. Recasting the program as a loan that is due on sale, transfer, or when it no longer qualifies as a senior homestead would remove the lottery character of the program while preserving its services and providing an opportunity for the city to recycle its program funds. Additionally, most elderly home repair clients also need a host of social services, and making repairs does not address the conditions that created the pattern of deferred maintenance, which may resume after repairs are complete. For these reasons, and because the program could expend sums which will always exceed the city's available funds, the scope of work on such repairs should be limited to a small number of essential repairs for seniors earning under 30 percent of the area median income, such as roof replacement. Instead, most funds for senior housing should be spent on increasing the availability of permanently affordable senior rental housing in the low-income neighborhoods where senior home repair clients reside. There the seniors can more easily receive social services and benefit from social interaction without the burden of home maintenance, and the city can stretch the useful life of its senior housing expenditures. These funds should be leveraged with project-based Housing Choice vouchers and strategic support of Section 202 applications by local nonprofits.

    b. **General Home Rehabilitation** - While it is not always cost-effective to rehab older houses, in other cases, rehab can be a cost-effective way to preserve affordable housing. Rehab is particularly important in revitalizing neighborhoods as a strategy for preserving both the character and affordable housing opportunities in those neighborhoods. Unfortunately, despite the investment of considerable time and energy to develop a rehab loan product in Houston several years ago, the product was never well utilized. As an initial step in the next year, the Task Force recommends an examination of why past efforts to market a rehabilitation loan product in Houston have been unsuccessful and what products appear to have worked well in other cities. (LISC, the Neighborhood Reinvestment Corporation, and the Enterprise Corporation are groups which have aggregated rehab best practices, among others). Assuming a product can be identified that stands a high likelihood of being utilized effectively in Houston, this product should be implemented.

16. **Develop a regional housing plan** in partnership with MSA cities and counties that links workforce housing with employment centers and promotes mixed-income development to reduce commuting, improve the region's air quality, and reduce the congestion growth rate.

17. **Evaluate the Impact of City Policies on Housing Affordability.** Numerous city policies have the effect of increasing the cost of rental or owner-occupied housing. To make housing

more affordable, the impact on affordability should be part of the consideration of proposed ordinances and building code changes. Permits, fees, and utility rates should be related to the actual cost of providing the service. Garbage sponsorship agreements now available to homeowner associations should also be made available for multifamily properties. As tax policy evolves, it should be a goal that property appraisal increases should be capped in like fashion for *all* residential properties, including multifamily properties. Finally, it will be important for the city to consider creative solutions for offsetting the increased housing costs likely to result from new surface detention policies that reduce the feasible density of new development. Everyone agrees that flooding is a serious problem that needs to be addressed; the question to examine is whether there are alternative approaches that can be equally effective in controlling flooding, but do not lead to increased housing costs for home purchasers (especially low- and moderate-income purchasers).

18. **Expand Awareness of the Benefits of Affordable Housing**. In Houston, as in other parts of the country, the construction of affordable housing is sometimes delayed or canceled due to the opposition of neighborhood residents or groups. Such “Not in My Backyard” opposition is often based on unfounded assumptions about the impact of affordable housing construction on existing property values, the appearance of the developments, and the characteristics of the families that would occupy them. To address these concerns, Houston should take steps to educate the public about the need for affordable housing among the city’s essential workforce (police officers, fire fighters, teachers, nurses, etc.), the attractive appearance of modern affordable housing, and the evidence showing that well-designed affordable housing does not diminish local property values. There is a substantial body of work from around the country that could be utilized as the basis for such a public awareness campaign. The City would also benefit from working together with similar efforts, such as Housing Texas, a statewide campaign to address such issues.

C. Funding Recommendations

19. **TIRZ Set-asides**. Extend the affordable housing set-aside to all Tax Increment Reinvestment Zones.

20. **CIP Bond Election.** Continue to include a housing component in each CIP bond election, increase the amount to $50,000,000 and adjust it for inflation.

21. **Housing Trust Fund**. Work with the county to create a county-level housing trust fund resourced by a document stamp or recording fee and dedicated to increasing the supply of affordable housing units serving households earning less than 60% of the area median income, with at least half of the funds used to further homeownership.

22. **Tax Abatement**. Adopt a tax abatement policy to stimulate the creation of 1500 new affordable housing units annually serving households earning less than 50% of the area median income through a 10-year abatement on improvements, phasing in 20% a year in years 11-15. The abatement should target home ownership anywhere and rental housing in non-low-income census tracts.

    a. **CDC Capacity Building.** The city’s network of community-based development organizations represents an important resource for affordable housing and neighborhood revitalization whose effectiveness would be enhanced through expanded capacity-building efforts. These efforts should focus on: (a) training and technical assistance that strengthens these organizations' technical expertise; (b) the facilitation of partnerships among nonprofit development organizations and between these nonprofits and for-profit developers interested in building affordable housing; (c) pre-development grants designed to permit community-based development organizations to put together feasible, fundable, projects; and (d) operating funding that permits these organizations to maximize the affordability of the housing they produce. These capacity building efforts could be funded directly or through an intermediary such as LISC, which has operated a successful capacity building program for the past four years and could be expanded. The LISC program provides multi-year operating support combined with classroom and independent training. The level and type of support is tailored to the experience level and production of the CDCs. To ensure that it adequately fills the funding gap for which it is intended, pre-development funding for feasibility studies and other preliminary costs should be provided in the form of recoverable grants which would be repaid for successful projects, and forgiven for projects which cannot be completed.

THREE YEAR IMPLEMENTATION SCHEDULE

The full list of recommendations are more than can likely be implemented in a year, so the following schedule is suggested:

Year One:

1. Inaugurate the RFP process described in Appendix C;
2. Establish the Stakeholders Advisory Committee;
3. Launch the tax-delinquent property reclamation described in Exhibit D;
4. Streamline the 70/30 reimbursement process and launch scattered-site reimbursement;
5. Reform the down payment assistance program as described in Appendix E and couple it with the counseling described in Appendix G;
6. Work with the housing authority to expand the use of Section 8 Housing Choice vouchers for homeownership;
7. Formally establish an ombudsman to address barriers to affordable housing development;
8. Reform the senior home repair program per 15a above;
9. Pass an ordinance requiring an affordable housing set-aside in all TIRZ districts.

Year Two:

1. Establish the departmental housing roundtable;
2. Evaluate new approaches to rental housing and the use of project-based vouchers;
3. Develop a campaign to address public perceptions about rental housing;
4. Implement an enhanced CDC capacity-building initiative;
5. Expand tax abatement for low-income home ownership in low-income census tracts, and create an abatement program for senior rental housing units affordable to seniors earning less than 30% of the area median income;
6. Create a solid waste reimbursement program for multifamily properties; and
7. Work with HGAC to encourage mixed-income and mixed-use housing development throughout the region as part of transportation and air quality planning.

Year Three:

1. Promote creation of a county-level housing trust fund in the state legislature;
2. Promote legislation creating a homestead preservation district providing annual appraisal caps for long-term homesteaders in neighborhoods subject to gentrification;
3. Create the Housing Resource Center;
4. Develop an anti-predatory lending campaign;
5. Develop a home improvement loan program with local lenders;
6. Include an increased housing bond issue in the CIP bond election (whenever it occurs).
7. Adjust the water rates for multifamily properties to actual cost.

Throughout the time-table, seek opportunities to reduce barriers to affordable housing development as they become apparent.

Appendix A: Houston's Housing Problems

The principal housing problem in Houston is housing affordability for very low-income families. Other housing problems include crowding and quality problems, both of which are worse in Houston than in the nation as a whole. Finally, Houston's homeownership rate is significantly below what one would expect in light of the comparatively low homeownership costs.

Affordability.[2] Among the 83,367 renter households in Houston with incomes below 30 percent of the area median income, some 56 percent had a severe housing affordability problem in 2000, spending more than half their gross income for housing. Another 16 percent had moderate affordability problems, spending more than 30 percent of their gross income for housing. While the incidence of severe affordability problems goes down significantly among the 66,000 households in the next income tier (31 to 50 percent of the area median income), dropping to 15 percent, most households in this income range (a total of 63 percent) still spend more than 30 percent of their gross income for housing – the HUD standard for affordability.

Very low-income owners also experience severe cost burdens. Among the 31,886 owner households with incomes below 30 percent of the area median income in 2000, nearly half (49 percent) spent more than half their gross income on housing costs, and another 17 percent spent more than 30 percent of their gross income for housing. The problem is likewise acute among owners in the next income tier, with 21 percent of the 30,555 owner households with incomes between 31 and 50 percent of the area median income in 2000 spending more than half their gross income on housing and another 28 percent spending more than 30 percent of their income.

Very few families with incomes between 51 and 80 percent of the median income have severe housing affordability problems, but about one in four of the 83,783 renter households and one in three of the 50,353 homeowner households in this income tier spent more than 30 percent of their gross income on housing costs in 2000.

Crowding[3]

The most recent Metropolitan Area American Housing Survey for Houston is from 1998. At that time, some 1.6 percent of housing units in Houston were severely crowded (1.5 persons per room or greater), roughly four times the nationwide average of 0.4 percent. Compared with other cities, Houston exhibited a greater rate of severe crowding than Boston and Philadelphia, a comparable rate of severe crowding to Chicago, and a lower rate of severe crowding than New York City, Los Angeles, and San Francisco. Of note, Houston had a higher rental vacancy rate (8.7%) at the time of the study than any of these other cities – a fact that one would normally associate with a lower rate of crowding. The fact that Houston's crowding rate exceeded that of many tight rental markets reinforces the seriousness of the problem.

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[2] Source: HUD's State of the Cities Database, based on 2000 census data for the City of Houston.

[3] Data on crowding and housing quality come from the American Housing Survey, as analyzed and reported in Michael H. Schill and Glynis Daniels, *State of New York City's Housing and Neighborhoods: An Overview of Recent Trends*, Furman Center for Real Estate and Urban Policy, New York University, which compares housing conditions in New York City to those in Boston, Chicago, Houston, Los Angeles, Philadelphia, San Francisco and the United States generally.

Housing Quality Problems

In 1998, some 14 percent of the housing stock in Houston had moderate or severe housing quality problems – more than double the 6.7% rate of the nation as a whole. As compared with other cities in the Schill & Daniels comparative analysis (cited above), Houston had higher rates of substandard housing than Boston (9.6%), Philadelphia (10.1%), Chicago (11.4%), and Los Angeles (12.1%), a comparable rate to New York City (13.8%) and a lower rate than San Francisco (15.9%). While the housing quality problems in Houston tend not to be as severe as those of other cities – a fact likely attributable to the relatively small percentage of very old housing in Houston – substandard housing is nevertheless a serious problem in Houston.

Homeownership Rates

Per the 2000 census, the 50 largest cities had a median homeownership rate of 66.36%. (This is the median of each city's homeownership rate; it is not population weighted.) By contrast, Houston's homeownership rate was 45.79%. Ranked from highest to lowest rate, Houston's homeownership rate was ranked 37 out of 50 -- roughly the marker for the bottom quartile). As one reduces the number of cities in the comparison to the largest cities, however, Houston's percentile rises. In the 20 largest cities, for example, Houston's homeownership rate is ranked 12th out of 20.

There are of course a number of large cities with lower homeownership rates than Houston, including New York City, Boston, Los Angeles, and San Francisco. But in none of these cities are land and home prices nearly as inexpensive as they are in Houston. Given Houston’s low homeownership costs, one would assume that the homeownership rate would be far higher.

It is important to note that this condition extends to the region as a whole. Of the 75 largest metropolitan areas in the country, only four had lower homeownership rates than the Houston-Galveston Metropolitan area in 2003.

The Task Force wishes to emphasize that it is not the low homeownership rate itself that is a problem, but rather the fact that many families in Houston do not have the ability to exercise a meaningful choice about whether or not to become a homeowner – a fact strongly suggested by the lower-than-expected homeownership rate. While there is evidence that homeownership itself provides benefits to communities, families have a right to choose to be renters and renting may well be a better choice for many families. At the same time, however, to the maximum extent practicable, renters that wish to become homeowners should have an opportunity to do so. The Task Force thus believes that steps are needed to expand the opportunities of low-income renters to become homeowners and to help low-income homeowners to retain their homeownership status when threatened with default or foreclosure.

One potential explanation for the relatively low homeownership rate in Houston is the relatively high percentage of immigrant families, who may lack basic information about the housing market and may not yet have sufficient savings to purchase a home.

Appendix B: Background on the Affordable Housing Task Force

In June 2004, a group of national experts on housing, planning and land use issues released a report titled: *Housing Strategies for Houston: Expanding Opportunities*. The report, commissioned by a broad-based Steering Committee that had spent two years gathering evidence on the housing-related needs of the City,[4] highlighted critical challenges facing Houston over the next 25 years related to housing, planning and growth and underscored the importance of proactive action to strengthen Houston's housing and planning policies to ensure the City is better able to meet these challenges.

One of the key challenges identified by the *Housing Strategies* report was a need to strengthen Houston's affordable housing policies. Without an expanded availability of affordable housing within the city, the report warned, Houston would face difficulty attracting teachers, police officers, fire fighters, nurses and other workers necessary for the city's growth. The report also noted that Houston's homeownership rate lagged behind that of the nation as a whole.

In October 2004, City Council Member Gordon Quan asked the Housing Strategies Steering Committee to establish a short-term "affordable housing task force" to make specific recommendations for how Houston can strengthen its affordable housing policy. (A separate task force was established to focus specifically on planning issues.) This report summarizes the recommendations of the affordable housing task force.

We thank the following individuals for their service on the affordable housing task force:

- Stephan Fairfield (Chair), Covenant Community Capital Corporation
- Jackie Hoyer, Federal Reserve Bank of Dallas, Houston Branch
- Mike Karm, Larus Builders, Inc. (GHBA President)
- Mary Lawler, Avenue CDC (Houston CDC Association President)
- Jeff Lubell, Council Member Gordon Quan's office
- Gloria Sanderson, Local Initiatives Support Corporation
- J. J. Smith, Fannie Mae
- Andy Teas, Houston Apartment Association
- Tom Walker and Chuck Wustman, Gateway Homes, Ltd.

[4] This process was initiated by the Houston Chapter of the American Institute of Architects, in partnership with the Houston City Council, the business community, nonprofit community-based organizations and others. For more information on the process that led to the report, or for a copy of the report, see www.housinghouston.org.

Appendix C: Recommendations for Strengthening Transparency in the Allocation of City-Controlled Housing Funds

At present, the bulk of city-controlled housing funds are distributed through an open-ended RFP process, in which applications are considered one at a time, rather than competitively, with no clear criteria for rating and ranking proposals. Unsuccessful applicants are not generally informed of the reasons why their proposals have been rejected. The City Council is not generally informed of the reasons why certain proposals were preferred over others, or made aware of the existence of other proposals. As a result, it is difficult to say with confidence that the very best projects have been funded.

The following are recommendations for ways to make the existing process for allocating city-controlled housing funds more transparent and accountable. Increased transparency would increase the confidence of HUD and the public in the city's affordable housing investments, help the Mayor and the City Council make better-informed decisions, and strengthen accountability. It also would help developers and CDCs learn what they need to do to propose projects that can gain city approval, increasing efficiency for all involved:

1. Decisions on all projects funded from HOME, CDBG, TIRZ, bond and McKinney Act resources should be made on a regular (say semi-annual) basis that will allow for multiple projects to be weighed against each other in a time period of less than 120 days from submission deadline to council action on recommendations.

2. Criteria should be developed through a transparent public process to rate and rank proposals to ensure the selected projects advance the city's priorities, giving preference to proposals that serve the lowest-income households and further either economic integration or neighborhood revitalization. Uniform threshold criteria should be developed on project energy-efficiency, accessibility, and amenities along with uniform underwriting criteria to evaluate projects for economic feasibility. There should also be a cap on the amount of funds any given party and its related persons and entities can obtain in any given year.

3. To facilitate evaluation by the Mayor, City Council and the public, a summary should be prepared of all project applications that have been proposed since the last decision period (i.e., in the current semi-annual period). The summary should contain charts designed to facilitate comparison of the projects on such metrics as sponsor characteristics, income level served, location, affordability, unit quality, resident services, and adequacy of infrastructure and area services, along with any other criteria used to rank applications. There should also be a one-page summary of each proposed project that indicates the nature of the proposed project, its location, the number of units, the nature and amount of the requested subsidy, the population to be served by the project, and background on the sponsor's principals.

4. The Department of Housing and Community Development (HCD) should prepare written recommendations on which projects to fund that indicate the basis for the recommendation to fund or not fund each specific proposal.

5. Both the summary of proposals and HCD's recommendations should be provided to the City Council and posted to the Internet in advance of a public hearing at which the City Council evaluates the recommendations and makes final decisions about which projects to fund.

Appendix D: Speeding Up the Process of Making Tax Delinquent Properties Available for Affordable Housing

The following is a proposed draft of legislation to streamline the process of making tax-delinquent properties available for affordable housing by enabling a bypass of the public auction process for non-homestead properties with five years or more of tax delinquency that have been targeted by the city or a community housing development organization for development of affordable housing.

AN ACT

relating to urban land bank demonstration programs.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF TEXAS:

SECTION 1. Subtitle A, Title 12, Local Government Code, is amended by adding Chapter 379D to read as follows:

CHAPTER 379D. URBAN LAND BANK DEMONSTRATION PROGRAM

Sec. 379D.001. SHORT TITLE. This chapter may be cited as the Urban Land Bank Demonstration Program Act.

Sec. 379D.002. APPLICABILITY. This chapter applies only to home-rule municipalities that have a population of 1.2 million or more.

Sec. 379D.003. DEFINITIONS. In this chapter:

(1) “Affordable” means that the monthly mortgage payment or contract rent does not exceed 30% of the applicable median family income for that unit size, in accordance with the income and rent limit rules promulgated by the Texas Department of Housing and Community Affairs.

(2) "Community housing development organization" or "organization" means an organization that:

(A) meets the definition of a community housing development organization in 24 C.F.R. Section 92.2;

(B) is certified by the municipality as a community housing development organization;

(C) is governed exclusively by a board of at least five members unrelated by blood, marriage or business relationship; and

(D) is not controlled, directly or indirectly, by any other party through any contract, arrangement, understanding, relationship, voting power, affiliation, trust, proxy, power of attorney, pooling arrangement, security, warrant, partnership, option, discretionary account, joint venture, or any other device, as evidenced by a notarized affidavit signed by each board member.

(2) "Land bank" means an entity established or approved by the governing body of a municipality for the purpose of acquiring, holding, and transferring unimproved real property under this chapter.

(3) "Low income household" means a household with a gross income of not greater than 60 percent of the area median family income, adjusted for household size, for the metropolitan statistical area in which the municipality is located, as determined annually by the United States Department of Housing and Urban Development.

(4) “Middle income household” means a household with a gross income of not less than 80 percent nor greater than 100 percent of the area median family income, adjusted for household size, for the metropolitan statistical area in which the municipality is located, as determined annually by the United States Department of Housing and Urban Development.

(4) "Moderate income household" means a household with a gross income not less than 60 percent nor greater than 80 percent of the area median family income, adjusted for household

size, for the metropolitan statistical area in which the municipality is located, as determined annually by the United States Department of Housing and Urban Development.

(5) "Qualified participating developer" means a developer who meets the requirements of Section 379C.005 and includes a qualified organization under Section 379C.011.

(6) "Urban land bank demonstration plan" or "plan" means a plan adopted by the governing body of a municipality as provided by Section 379C.006.

(7) "Urban land bank demonstration program" or "program" means a program adopted under Section 379C.004.

Sec. 379D.004. URBAN LAND BANK DEMONSTRATION PROGRAM. (a) The governing body of a municipality may adopt an urban land bank demonstration program in which the officer charged with selling real property ordered sold pursuant to foreclosure of a tax lien may sell certain eligible real property by private sale for purposes of affordable housing development as provided by this chapter.

(b) The governing body of a municipality that adopts an urban land bank demonstration program shall establish or approve a land bank for the purpose of acquiring, holding, and transferring unimproved real property under this chapter.

Sec. 379D.005. QUALIFIED PARTICIPATING DEVELOPER. To qualify to participate in an urban land bank demonstration program, a developer must:

(1) have developed three or more housing units within the three-year period preceding the submission of a proposal to the land bank seeking to acquire real property from the land bank;

(2) have a development plan approved by the municipality for the land bank property; and

(3) meet any other requirements adopted by the municipality in the urban land bank demonstration plan.

Sec. 379D.006. URBAN LAND BANK DEMONSTRATION PLAN. (a) A municipality that adopts an urban land bank demonstration program shall operate the program in conformance with an urban land bank demonstration plan.

(b) The governing body of a municipality that adopts an urban land bank demonstration program shall adopt a plan annually. The plan may be amended from time to time.

(c) In developing the plan, the municipality shall consider other housing plans adopted by the municipality, including the comprehensive plan submitted to the United States Department of Housing and Urban Development and all fair housing plans and policies adopted or agreed to by the municipality.

(d) The plan must include the following:

(1) a list of community housing development organizations eligible to participate in the right of first refusal provided by Section 379C.011;

(2) a list of the parcels of real property that may become eligible for sale to the land bank during the upcoming year, including any parcels identified by community housing development organizations;

(3) the municipality's plan for affordable housing development on those parcels of real property; and

(4) the sources and amounts of funding anticipated to be available from the municipality for subsidies for development of affordable housing in the municipality, including any money specifically available for housing developed under the program, as approved by the governing body of the municipality at the time the plan is adopted.

Sec. 379D.007. PUBLIC HEARING ON PROPOSED PLAN. (a) Before adopting or amending a plan, a municipality shall hold a public hearing on the proposed plan.

(b) The mayor or the mayor’s designee shall provide notice of the hearing to all community housing development organizations and to neighborhood associations identified by the municipality as serving the neighborhoods in which properties anticipated to be available for sale to the land bank under this chapter are located.

(c) The mayor or the mayor's designee shall make copies of the proposed plan available to the public not later than the 60th day before the date of the public hearing.

Sec. 379D.008. PRIVATE SALE TO LAND BANK. (a) Notwithstanding any other law and except as provided by Subsection (f), property that is ordered sold pursuant to foreclosure of a tax lien may be sold in a private sale to a land bank by the officer charged with the sale of the property without first offering the property for sale as otherwise provided by Section 34.01, Tax Code, if:

(1) the market value of the property as appraised by the local appraisal district and as specified in the judgment of foreclosure is less than the total amount due under the judgment, including all taxes, penalties, and interest, plus the value of nontax liens held by a taxing unit and awarded by the judgment, court costs, and the cost of the sale;

(2) the property is not improved with a habitable building or buildings;

(3) there are delinquent taxes on the property for five or more years; and

(4) the municipality has executed with the other taxing units that are parties to the tax suit an interlocal agreement that enables those units to agree to participate in the program while retaining the right to withhold consent to the sale of specific properties to the land bank.

(b) A sale of property for use in connection with the program is a sale for a public purpose.

(c) If the person being sued in a suit for foreclosure of a tax lien does not contest the market value of the property in the suit, the person waives the right to challenge the amount of the market value determined by the court for purposes of the sale of the property under Section 33.50, Tax Code.

(d) For any sale of property under this chapter, each person who was a defendant to the judgment, or that person's attorney, shall be given, not later than the 30th day before the date of sale, written notice of the proposed method of sale of the property by the officer charged with the sale of the property. Notice shall be given in the manner prescribed by Rule 21a, Texas Rules of Civil Procedure.

(e) After receipt of the notice required by Subsection (d) and before the date of the proposed sale, the owner of the property subject to sale may file with the officer charged with the sale a written request that the property not be sold in the manner provided by this chapter.

(f) If the officer charged with the sale receives a written request as provided by Subsection (e), the officer shall sell the property as otherwise provided in Section 34.01, Tax Code.

(g) The owner of the property subject to sale may not receive any proceeds of a sale under this chapter. However, the owner does not have any personal liability for a deficiency of the judgment as a result of a sale under this chapter.

(h) Notwithstanding any other law, if consent is given by the taxing units that are a party to the judgment, property may be sold to the land bank for less than the market value of the property as specified in the judgment or less than the total of all taxes, penalties, and interest, plus the value of nontax liens held by a taxing unit and awarded by the judgment, court costs, and the cost of the sale.

(i) The deed of conveyance of the property sold to a land bank under this section conveys to the land bank the right, title, and interest acquired or held by each taxing unit that was a party to the judgment, subject to the right of redemption.

(j) Property sold to and held by the land bank for subsequent resale shall be eligible for an exemption from ad valorem taxes for a period of up to three years from the date of acquisition.

Sec. 379D.009. SUBSEQUENT RESALE BY LAND BANK. (a) Each subsequent resale of property acquired by a land bank under this chapter must comply with the conditions of this section.

(b) The land bank must sell a property to a qualified participating developer within the three-year period following the date of acquisition for the purpose of construction of affordable housing for sale or rent to low income households. If after three years a qualified participating developer has not purchased the property, the property shall be transferred from the land bank to the taxing units who were parties to the judgment for disposition as otherwise allowed under the law.

(c) Unless the municipality increases the amount in its plan, the number of properties acquired by a qualified participating developer under this section on which development has not been completed may not at any given time exceed three times the annual average residential production completed by the qualified participating developer during the preceding two-year period as determined by the municipality.

(d) The deed conveying a property sold by the land bank must include a right of reverter so that if the qualified participating developer does not apply for a construction permit and close on any construction financing within the two-year period following the later of (a) the date of the conveyance of the property from the land bank to the qualified participating developer, or (b) the expiration of the redemption and notice protest periods, then the property will revert to the land bank for subsequent resale to another qualified participating developer or conveyance to the taxing units who were parties to the judgment for disposition as otherwise allowed under the law.

Sec. 379D.010. RESTRICTIONS ON OCCUPANCY AND USE OF PROPERTY. (a) The land bank shall impose deed restrictions on property sold to qualified participating developers requiring the development and sale or rental of the property to low- or moderate-income households, with an allowance that up to 20% of the units in any given area may be made available to middle income households.

(b) At least 30 percent of the land bank properties sold during any given fiscal year to be developed for sale shall be deed restricted for sale to households with gross household incomes not greater than 60 percent of the area median family income, adjusted for household size, for the metropolitan statistical area in which the municipality is located, as determined annually by the United States Department of Housing and Urban Development.

(c) At least 50 percent of the land bank properties sold during any given fiscal year to be developed for sale shall be deed restricted for sale to households with gross household incomes not greater than 80 percent of the area median family income, adjusted for household size, for the metropolitan statistical area in which the municipality is located, as determined annually by the United States Department of Housing and Urban Development.

(d) If property is developed for rental housing, the deed restrictions must be for a period of not less than 20 years and must require that:

(1) 100 percent of the rental units be occupied by and affordable to households with incomes not greater than 60 percent of area median family income, based on gross household income, adjusted for household size, for the metropolitan statistical area in which the municipality is located, as determined annually by the United States Department of Housing and Urban Development; or

(2) 40 percent of the units be occupied by and affordable to households with incomes not greater than 50 percent of area median family income, based on gross household income, adjusted for household size, for the metropolitan statistical area in which the municipality is located, as determined annually by the United States Department of Housing and Urban Development; or

(3) 20 percent of the units be occupied by and affordable to households with incomes not greater than 30 percent of area median family income, based on gross household income, adjusted for household size, for the metropolitan statistical area in which the municipality is located, as determined annually by the United States Department of Housing and Urban Development.

(e) The deed restrictions under Subsection (d) must require the owner to file an annual occupancy report with the municipality on a reporting form provided by the municipality. The deed restrictions must also prohibit any exclusion of an individual or family from admission to the development based solely on the participation of the individual or family in the housing choice voucher program under Section 8, United States Housing Act of 1937 (42 U.S.C. Section 1437f), as amended.

(f) Except as otherwise provided by this section, if the deed restrictions imposed under this section are for a term of years, the deed restrictions shall renew automatically.

(g) The land bank or the governing body of the municipality may modify or add to the deed restrictions imposed under this section. Any modifications or additions made by the governing body of the municipality must be adopted by the municipality as part of its plan and must comply with the restrictions set forth in Subsections (a), (b), (c), (d), and (e).

Sec. 379D.011. RIGHT OF FIRST REFUSAL. (a) In this section, "qualified organization" means a community housing development organization that:

(1) contains within its designated geographical boundaries of operation, as set forth in its application for certification filed with and approved by the municipality, a portion of the property that the land bank is offering for sale;

(2) has built at least three single-family homes or duplexes or one multifamily residential dwelling of four or more units in compliance with all applicable building codes within the preceding two-year period and within the organization's designated geographical boundaries of operation; and

(3) within the preceding three-year period has developed or rehabilitated housing units within a two mile radius of the property that the land bank is offering for sale.

(b) The land bank shall first offer a property for sale to qualified organizations.

(c) Notice must be provided to the qualified organizations by certified mail, return receipt requested, at least 60 days prior to the right of first refusal exercise period.

(d) The municipality shall specify in its plan the period during which the right of first refusal provided by this section may be exercised by a qualified organization. That period must be at least 90 days in duration and commence at least three months but not more than 26 months from the date of the deed of conveyance of the property to the land bank. If the municipality conveys the property to a qualified organization prior to the expiration of the redemption and notice protest periods, then the interlocal agreement must provide tax abatement for such property until the expiration of the redemption and notice protest periods.

(e) During the specified period, the land bank may not sell the property to a qualified participating developer other than a qualified organization. If all qualified organizations notify the land bank that they are declining to exercise their right of first refusal during the specified period, or if an offer to purchase the property is not received from a qualified organization during that period, the land bank may sell the property to any other qualified participating developer at the same price that the land bank offered the property to the qualified organizations, except that if the property is to be occupied by a middle-income household, then the price shall be the lesser of market value or 15% of the qualified developer’s subsequent home sales price, with any difference from the regular price being contributed to a fund used to subsidize the affordability of homes provided under Sec. 379D.010(b).

(f) In its plan, the municipality shall establish the amount of additional time, if any, that a property may be held in the land bank once an offer has been received and accepted from a qualified organization or other qualified participating developer.

(g) If more than one qualified organization expresses an interest in exercising its right of first refusal, the organization that has designated the most geographically compact area encompassing a portion of the property shall be given priority.

(h) A qualified organization may submit properties eligible for tax foreclosure within its target area to the land bank for priority processing under this act.

(i) In its plan, the municipality may provide for other rights of first refusal for any other nonprofit corporation exempted from federal income tax under Section 501(c)(3), Internal Revenue Code of 1986, as amended, provided that the preeminent right of first refusal is provided to qualified organizations as provided by this section. The land bank is not required to provide a right of first refusal to qualified organizations under this section if the land bank is selling property that reverted to the land bank under Section 379C.009(d).

Sec. 379D.012. OPEN RECORDS AND MEETINGS. The land bank shall comply with the requirements of Chapters 551 and 552, Government Code.

Sec. 379D.013. RECORDS; AUDIT; REPORT. (a) The land bank shall keep accurate minutes of its meetings and shall keep accurate records and books of account that conform with generally accepted principles of accounting and that clearly reflect the income and expenses of the land bank and all transactions in relation to its property.

(b) The land bank shall file with the municipality not later than the 90th day after the close of the fiscal year annual audited financial statements prepared by a certified public accountant. The financial transactions of the land bank are subject to audit by the municipality.

(c) For purposes of evaluating the effectiveness of the program, the land bank shall submit an annual performance report to the municipality not later than November 1 of each year in which the land bank acquires or sells property under this chapter. The performance report must include:

(1) a complete and detailed written accounting of all money and properties received and disbursed by the land bank during the preceding fiscal year;

(2) for each property acquired by the land bank during the preceding fiscal year:

(A) the street address of the property;

(B) the legal description of the property;

(C) the date the land bank took title to the property;

(D) the name and address of the property owner of record at the time of the foreclosure;

(E) the amount of taxes and other costs owed at the time of the foreclosure; and

(F) the assessed value of the property on the tax roll at the time of the foreclosure;

(3) for each property sold by the land bank during the preceding fiscal year to a qualified participating developer:

(A) the street address of the property;

(B) the legal description of the property;

(C) the name and mailing address of the developer;

(D) the purchase price paid by the developer;

(E) the maximum incomes allowed for the households by the terms of the sale; and

(F) the source and amount of any public subsidy provided by the municipality to facilitate the sale or rental of the property to a household within the targeted income levels;

(4) for each property sold by a qualified participating developer during the preceding fiscal year, the buyer's household income and a description of all use and sale restrictions; and

(5) for each property developed for rental housing with an active deed restriction, a copy of the most recent annual report filed by the owner with the land bank.

(d) The land bank shall maintain in its records for inspection a complete copy of the sale settlement statement for each property sold by a qualified participating developer and a copy of the first page of the mortgage note with the interest rate and indicating the volume and page number of the instrument as filed with the county clerk.

(e) The land bank shall provide copies of the performance report to the taxing units who were parties to the judgment of foreclosure and shall provide notice of the availability of the performance report for review to the organizations and neighborhood associations identified by the municipality as serving the neighborhoods in which properties sold to the land bank under this chapter are located.

(f) The land bank and the municipality shall maintain copies of the performance report available for public review.

SECTION 2. This Act takes effect September 1, 2005.

Appendix E: Downpayment Assistance

In place of the current flat downpayment grant system ($9,500 for new construction and $5,000 for existing housing), we propose the following three-tiered system:

A. $3,000 in grant funds to cover closing costs and/or downpayment. These funds would be available to all qualifying applicants with incomes below 80 percent of the area median income (As with the current downpayment assistance, provisions would be put in place to prevent the grant from being used to “flip” properties.). To insure commitment and preserve the City’s investment, buyers should be required to put down at least 1% of the sales price towards the purchase. Additionally, buyers should be required to complete homebuyer’s counseling prior to entering into a home contract or applying for a mortgage in order to be eligible for assistance. The protections against predatory lending incorporated into the previous HOH program should also be maintained.

B. For new homes, up to $17,000 in loan funds should be made available in the form of a second mortgage, with all payments deferred until re-sale of the home. The maximum amount of the second mortgage would be determined by the applicant’s income, with lower-income families (i.e., families with incomes below 60% of the area median income) eligible for larger loans, and relatively higher-income families (i.e., families at 80% of the area median income) eligible for lower amounts. The attached chart details levels of affordability with a $2,000 loan for families from 70-80% of AMI, $7,000 for those at 60-70% AMI, and up to $17,000 for those below 60% AMI (If HHFC has subordinate bond fund assistance available, a loan could also be extended to qualifying households earning up to the limits of the bond program). For existing homes, up to $4,000 in second mortgage loan funds should be made available for repairs that address HUD Housing Quality Standards.

Under our proposal, there would be no conventional interest. Rather, upon resale, the city would get a portion of the increase in home price appreciation. The amount of the city’s equity stake would be based on the ratio of the city’s second mortgage to the original purchase price. For example, if the city provided a $10,000 second mortgage to help a purchaser buy a $100,000 home, the city’s interest would be equal to 10 percent of (the increase in home price appreciation (less any costs for improvements by the homebuyer)), as determined at re-sale.

C. $5,000 in second mortgage funds available to qualifying purchasers that buy a home in a low-income census tract. These funds are intended to stimulate redevelopment in low-income neighborhoods and to cover the increased costs associated with infill housing. The terms of this loan would be the same as the income-based component.

Relative to the current system, the proposed system would:

- Provide the bulk of assistance in the form of a loan that the city would recover to help other families.

- Enable the city to effectively serve lower-income families by providing them with a higher level of assistance in the form of a deferred second mortgage. Depending on the mix of incomes of households served, it should be possible to continue to serve at least as many families as are currently served with the same amount of funds. For example, instead of providing two families with $9,500 each, one could provide one family with $3,000 and the other with $16,000, depending on their level of income corresponding to their level of need.

While our proposed system could be administered within the current funding level for this program, it would be desirable, at least at first, to augment funding to enable the program to serve more families. (As the loans start to be repaid, and the original funds become available for re-use by other families, it may be possible to maintain a set level of assistance each year, with a declining contribution of new city-controlled funds.)

In addition to changing the form of the assistance, it is important to change the way the program is administered so that it functions consistently with the normal timeframes for purchasing a home in the local marketplace. For example, homebuilders commonly have to wait a week or more after completing a home to have a closing because of a requirement that a Certificate of Compliance be produced before the agency managing the program will process the request, exposing the home to unnecessary theft and vandalism. It would be more productive and less costly to require such documents at closing, in the same manner that mortgage lenders require proof of insurance at closing.

In addition, we recommend that the city raise the maximum purchase price for new homes to allow the program to be used in a greater share of the city's neighborhoods. This recommendation is contingent on the other recommendations being adopted. Raising the maximum purchase price, without enacting the other changes, would simply lead to higher income families being served or larger homes built. But once the amount of assistance is tied to the family's income, the prospects of relatively less needy families getting a windfall are diminished.

Our specific recommendation for raising the maximum purchase price follows. While the proposed formula is somewhat complicated, the basic point is to ensure that the purchase price does not exceed an amount that a household at 80 percent of median income could reasonably afford.

Specifically, we recommend that the maximum home purchase price be adjusted annually within 30 days of HUD's posting of annual income limits, as adjusted for the average of households of three and four persons earning 80% of the area median income (the "Reference Income"), based on the following formula:

- The lesser of:

- $125,000 (2005), adjusted annually for the rate of inflation in the Consumer Price Index for Urban Consumers during the previous twelve months, or

- The contract sales price (including all selections, options, lot premiums and other add-ons) plus a closing cost allowance ($3,000 in 2005, adjusted annually for inflation), less a 1% down payment and the applicable Homebuyer Soft-Second Mortgage and Second Mortgage, yields a Monthly Housing Cost less than the 30% of the monthly Reference Income. The Mortgage component shall be calculated on the basis of the median of the 30-year fixed rate conforming and FHA mortgage rates reported in the Wall Street Journal at the time of the price determination plus 50 basis points. The insurance cost shall be the average of the HO-B rates for frame and brick homes in urban areas with good fire protection posted by the Texas Department of Insurance Homeowners Rate Guide for Harris County by carriers possessing an AM Best rating of A- or better and having less than median consumer complaints. The tax rates shall be the cumulative rates of all taxing jurisdictions (excluding public improvement districts) for the area inside Loop 610 times 80% of the Maximum Home Purchase Price, the final price being rounded down to the nearest hundred dollars (this formula currently yields a price of $132,100).

NEW HOME AFFORDABILITY WORKSHEET				
Target income range (percent of median)	Below 60%	60% - 70%	70% - 80%	80% - 115%
Sample income target for illustration	58%	68%	78%	110%
Purchase price (maximum price to be affordable at 30%)	91,640	100,500	113,180	165,000
Option	0	0	0	0
Closing costs	3,000	3,000	3,000	3,000
Purchase Price	94,640	103,500	116,180	168,000
Less down payment of	2,839	3,105	3,485	5,040
Less LARA grant or non-city funds	0	0	0	0
Less second mortgage (from HHFC for those over 80% MFI)	17,000	7,000	2,000	2,000
Less down payment, closing costs & prepaids assistance	3,000	3,000	3,000	3,000
First Mortgage Amount	71,801	90,395	107,695	157,960
Mortgage payment	430	542	646	947
Taxes	194	212	238	344
Insurance	128	128	128	128
Monthly Payment	752	881	1,011	1,419
Minimum income needed @ 30% ratio	30,074	35,258	40,445	56,742
Minimum income needed @ 30% ratio	14.40	16.89	19.37	27.18
Sample income target	30,073	35,258	40,443	57,035
Sample income per hour	14.40	16.89	19.37	27.32

Appendix F – Property Tax Relief

One of the classic dilemmas of community development work is that the very act of revitalizing a neighborhood tends to increase property values, driving up property taxes on the existing residents, who tend to have very low incomes. Among other impacts, the resulting tax burden often leads to resident opposition to further revitalization. It also forces many existing residents that wish to stay in the revitalized neighborhood to sell their homes. Not only do these residents feel "displaced" by change, but they often sell at a fairly early stage in the neighborhood's transition, so they do not realize the full economic benefit of rising property values.

One solution to this dilemma is to enact property tax relief to reduce the impact of rapidly rising property values on long-time residents. The point here is to maximize residents' choices about whether to stay or to sell their homes. Many residents will still choose to sell to realize the individual economic benefits of rapidly rising property values, opening up additional properties for revitalization. But at least the low-income residents of the neighborhood will have a meaningful choice of whether, and if so, when to sell, reducing community opposition, and helping to preserve affordable housing opportunities in the neighborhood.

While this task force is not in a position to advance a specific solution, we note that there are two main approaches to providing this type of relief:

- The relief could be applied to all residents below a certain income level. For example, a policy could be developed providing that the property taxes for families with incomes below 80 percent of the area median income could not go up each year by more than the average for the city as a whole (or some multiple). This has the advantage of ensuring coverage for residents impacted by faster than normal property value appreciation wherever they live.

- Alternatively, the relief could be applied to all residents living in particular neighborhoods. Legislation is likely to be introduced in the next Texas legislature session authorizing taxing jurisdictions to create "homestead preservation districts," within which they could fashion particular limits on property tax increases. Such a district would provide relief for homesteaders who have lived in the neighborhood for, say, 10 years, and for households who have received assistance in purchasing a home in the area within a lesser number of years. This has the advantage of avoiding the need to verify income.

Under either approach, the relief could be provided in the form of a write-off of excess taxes, or in the form of a property tax deferral, with taxes due on resale of the property. While it provides less relief for homeowners, the latter approach minimizes the economic impact on the city. Property tax relief may also be necessary for multifamily property owners to ensure that rising rents do not force families to leave their neighborhoods.

There are obviously important questions regarding the extent of the city's powers to enact such relief and the likely economic impacts. But until this problem is solved, there will be continued and possibly growing community opposition to revitalization within many older neighborhoods, preventing many otherwise-worthwhile redevelopment projects from moving forward.

By enabling local residents to make a choice of whether to stay or leave revitalized neighborhoods, property tax relief would foster better relations with local residents, stimulating redevelopment and generating significant tax revenue that could offset some or all of the property tax deferred.

Appendix G: Homeownership Education and Counseling

Recent changes in the mortgage market have led to substantially increased availability of private capital to moderate-income families. This creates both opportunities and challenges. The opportunity is to help many more families access private financing to become homeowners. The challenge is that some lenders push families to accept mortgages that really are not affordable to them – leading to increased defaults and foreclosures – or, in extreme cases, actually lead to the stripping of hard-earned home equity through predatory lending.

The key to both taking full advantage of this opportunity, and overcoming the challenges, is education. Families need to better understand the homebuying process, the importance of credit, and how to shop for mortgages. They also need to understand the warning signs of predatory lending and have a resource to help them sort out legitimate and illegitimate mortgage products. Finally, additional education and counseling are needed post-purchase to help families avoid default and foreclosure and predatory refinancing schemes.

The full range of education and counseling needs include:

- Financial education – basic education about the financial system, the value of good credit and means of its maintenance, household budgeting, and other consumer skills. This generally needs to occur several years before a family is ready to become a homeowner.
- Homeownership education – basic education about the homebuying process. Generally occurring at a time when a family is strongly considering homeownership, this includes information on how to shop for mortgages, how to take care of one's home, how to find a house, how to minimize defaults after purchase, etc. It also includes information to help families understand whether homeownership is the right option for them at the present time; it's not for everyone.
- Credit counseling – one-on-one work with clients to help them improve their credit so that they can qualify for a mortgage (or a mortgage with better terms).
- Post-purchase education and counseling. This is designed to help keep families in their homes. It often includes a classroom component, to help families budget for repairs and other expected costs, plus a crisis-intervention component for families in immediate danger of default.
- Predatory lending campaign. A number of cities, including San Antonio, have executed a marketing campaign to educate families on the danger of predatory lending and to create a referral network to homeownership education specialists who can help families determine if a mortgage is predatory or not. In Houston, the hotline could be integrated into the United Way's 2-1-1 line.

There are a number of funding sources beyond the city for these activities – notably, HUD's homeownership counseling grants – but there is little or no coordination between grantees. In addition, the need far outstrips the availability of funding. While costs vary substantially, based on the services provided, full-service homeownership education and counseling – combining classroom and individual counseling – generally runs between $500 and $1,000 per household. Classroom-only education – best suited for families on the higher end of the income spectrum in need of these services – generally costs less. In any event, this is obviously much less than the costs of building or subsidizing a new affordable unit, representing an excellent investment of city-controlled funds.

We recommend that the city use city-controlled affordable housing funds to expand the availability of the full range of homeownership education and counseling services. One condition for the receipt of funds should be cooperation by the grantees in city efforts to coordinate the expenditure of all homeownership education and counseling funds in the city to minimize duplication, facilitate access by families in need, and improve effectiveness.

Appendix H – Section 8 Homeownership and Project-Basing of Vouchers

Better coordination between the city and the housing authority could make important tools available to help existing residents in gentrifying neighborhoods "buy-in" to the neighborhoods or remain in affordable rental housing. Both tools involve Section 8 housing vouchers, which are generally used by eligible families to rent housing of their choice in the private market. One of the key advantages of Section 8 vouchers is that they provide housing that is affordable to families with incomes below 30 percent of the area median income. Another is that they are funded by the federal government, rather than the city.

HUD now allows Section 8 vouchers to be used for homeownership. Under the so-called "homeownership option," the payments that would normally go to rent are used instead for monthly homeownership costs. The family pays 30 percent of its adjusted income and the Section 8 voucher covers the balance of monthly homeownership costs up to a locally-determined maximum called the voucher payment standard. Monthly homeownership costs include principal, interest, taxes, insurance, utilities, and a reserve for repairs. Given the relatively high rent to homeownership cost ratio in Houston, Section 8 homeownership is likely to work extremely well in Houston, including for families with incomes as low as $12,000.

HACH has begun a pilot program to implement the homeownership option; this pilot should be expanded as quickly as possible to cover all voucher holders. Even when expanded, however, the program is likely to remain fairly small unless coordinated with other related efforts in Houston, including homeownership education and counseling (to help voucher-holders qualify for a mortgage and better understand the homebuying process) and affordable housing development (which can supply high-quality housing opportunities for voucher-holders in revitalizing neighborhoods). HACH may also need assistance designing and administering the program as its expertise lies primarily in rental housing.

In addition to maximizing homeownership opportunities for existing voucher-holders, there may be an opportunity to use "turnover vouchers" – existing vouchers that become available each year – to help residents of revitalizing neighborhoods buy-in to their neighborhoods, even if they do not currently have a voucher. This could be accomplished by modifying HACH's preference system to provide first preference for a certain number of turnover vouchers each year for families referred by CDCs or other organizations that are providing the families with services to help them become homeowners.

Another way to use Section 8 vouchers to preserve affordable housing opportunities in revitalizing neighborhoods is to attach (or "project-base") vouchers in high-quality rental housing, such as new low-income housing tax credit projects or existing well-maintained housing. Once "project-based," the vouchers make the units affordable to families with incomes as low as minimum wage or less. Families pay 30 percent of their adjusted income for rent and utilities and the Section 8 voucher covers the balance, up to the voucher payment standard. Without the project-based vouchers, the units would not generally be affordable to families with incomes below 30 percent of the area median income. While some families could use ordinary tenant-based vouchers to occupy the housing, even without project-basing, project-basing makes more sense when one is trying to preserve affordable housing opportunities within a particular neighborhood.